



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

Date: SEP 23 2002

Contact Person:

ID Number:

Telephone Number:

Employer Identification Number:

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(19). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The reasons for our conclusions are set forth below.

You were incorporated in the State of [REDACTED] on [REDACTED], as a not-for-profit, non-stock organization. You were formed to operate as a veterans organization. Your purpose is to assist veterans who wish to start their own small business, or who wish to maintain their own small business as a successful operation. Your Articles of Incorporation state that you are operated for "...educational, benevolent, fraternal, charitable, and other purposes..." allowed under section 501(c)(19) of the Code. (Art. of Incorp., Art. II) More specifically, you seek:

"to promote the social welfare of the communities in which veterans of the U.S. armed forces reside or work by providing educational and financial resources to develop and further the entrepreneurial skills and opportunities of veterans of the U.S. armed forces...."

Bylaws, Art. II

You are a membership organization. You require that your members be veterans of the United States armed forces. You now have [REDACTED] members. None of your members have any voting rights. Instead, you are run and operated by your Board of Directors. No member shall be entitled to vote or have any voice in the management of the corporate affairs per your Articles of Incorporation and Bylaws. (Art. of Incorp., Art. III; Bylaws, Art. IV, Sec. 1.) A Board member serves until he dies, resigns, is declared bankrupt, or found incompetent by a court. Decisions are made by the majority of the Board, unless noted otherwise. (Art. of Incorp., Art. IV) Board members may be paid for their work as Board members, or in any other capacity when working for you. (Bylaws, Art. IV, Sec. 12.) The Bylaws state that the removal of [REDACTED] as a director are subject to the same conditions applicable to his removal as an officer. (Bylaws, Art. IV, Sec. 2) The Bylaws

then state state that [REDACTED] can not be removed from the positions of chairman of the Board of Directors and President without cause, and if there is cause, he can still only be removed "...by the unanimous vote of all the directors then in office." (emphasis added) (Art. V, Sec. 3 of the Bylaws.)

Your bylaws require that you have at least five Board members on your Board of Directors. (Bylaws, Art. IV, Sec. 2.) You have six positions as Board members, but two are not filled. You currently have four Directors; [REDACTED], [REDACTED], [REDACTED], and [REDACTED]. None of them receive compensation for their role as directors. Director [REDACTED] will be paid for his services as a full-time employee as President and director of program development.

You expect to have [REDACTED] members per Form 1024. Of these [REDACTED] members, [REDACTED] are expected to be war veterans. Also, your website states that it expects to have [REDACTED] members within the first six months of operation, and [REDACTED] members within one year. By years [REDACTED], you expect a total membership between [REDACTED] members. As of [REDACTED], you have [REDACTED] members.

You plan to offer classes on how to start and maintain a business. You will also sponsor a credit card and loan program for your members, which will target small business owners who can not otherwise find funding to start their businesses. Your primary source of income will come from membership dues. You expect dues of [REDACTED] dollars in [REDACTED] and [REDACTED] dollars in [REDACTED]. In [REDACTED], expenses are expected to be advertising and running your operations of approximately [REDACTED] dollars, other salaries and wages of [REDACTED] dollars, rent of \$[REDACTED], and expenses attributed to activities related to your purposes of approximately \$[REDACTED]. In [REDACTED], expenses are expected to be the same as in [REDACTED] with an additional expense of [REDACTED] dollars for advertising and operating your business.

You plan on sponsoring a credit card program and a small business loan operation. Both of these programs will be operated by [REDACTED] ("the Bank"), a for-profit company. You will guarantee all such loans, using your membership dues as collateral for such loans. These credit cards and small business loans will be made available to members who have past credit problems, and who could not, otherwise, receive such credit cards or loans. The interest rate charged by the Bank is the same interest rate the Bank will charge to anybody else who applies for these loans. (i.e., no extra benefit just because someone is a member of your group.) You have a signed contract with the Bank for such programs, dated [REDACTED]. However, the Bank has reneged on this contract, and refused to advertise these programs, or issue any credit cards or make any loans, to date. You have hired an attorney, [REDACTED], to negotiate, and possibly litigate this matter, on your behalf. The current status of these negotiations, and potential litigation, are unknown to us.

You will offer classes which will develop/enhance your members' business skills. Each class will be rotated monthly, and will include instructional material. As of [REDACTED], you have had three one-time classes, with the following number of attendees, as follows:

1. [REDACTED]; 1 [REDACTED], [REDACTED] people signed the attendance sheet.
2. [REDACTED]; [REDACTED] people
3. [REDACTED]; [REDACTED] people

Classes #1 and #2 offered a book produced by you which gave details on how to set up a business. (basic accounting, legal, and administrative requirements.) Class #3

included a seven page handout discussing the accounting, banking, and insurance requirements of operating a small business.

You also offer a discount program, in which your members will give a 10%-20% discount to fellow members when purchasing items from fellow members. You also offer a Accounting and Payroll Services Program for Small Businesses which will provide accounting and payroll services for your members, when needed.

Other revenues will come from fundraising programs which you will have in the various state chapters of your organization. These will include raffles, dinners, and auctions. These revenues will be used to set up a "vet center" in various states throughout the USA. Other revenues will come from state and federal grants that are available to "community based" programs, such as yourself. (Ex., Federal Title 7 Welfare to Work Program.)

Currently, no one is receiving a salary from you. You have told us that [REDACTED], your President and Director, will be chosen as director of program development based upon his many years of experience in the Veterans Affairs Department. He expects to work 40-60 hours per week, and expects to be paid for his services. You have not told us how much you plan to pay him for this full-time position.

Your Board of Directors has met twice since inception; on [REDACTED], and [REDACTED]. You currently have a contract for services with the Veteran's Department's [REDACTED], which is run by your President, [REDACTED]. This contract will end in [REDACTED]. You do not think that this contract will be renewed, but if it is renewed, you have told us that [REDACTED] will not stay as Director/President of both organizations.

Section 501(c)(19) of the Code provides for the exemption from federal income tax of a post or organization of past or present members of the Armed Forces of the United States; or an auxiliary unit or society of, or a trust or foundation for, any such post or organization—(A) organized in the United States or any of its possessions, (B) at least 75 percent of the members of which are past or present members of the Armed Forces of the United States and substantially all of the other members of which are individuals who are cadets or are spouses, widows, or widowers of past or present members of the Armed Forces of the United States or of cadets, and (C) no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(19)-(1)(c) of the Income Tax Regulations provides that you must be operated for one or more of the following eight purposes in order to be exempt under this code section. They are:

- To promote the social welfare of the community as defined in Treas. Reg. 1.501(c)(4) 1(a)(2).
- Assist disabled and needy war veterans and members of the United States Armed Forces and their dependents, and widows and orphans of deceased veterans,
- Provide entertainment, care, and assistance to hospitalized veterans or members of the Armed Forces of the United States,
- Carry on programs to perpetuate the memory of deceased veterans and members of the Armed Forces and to comfort their survivors,
- Conduct programs for religious, charitable, scientific, literary, or educational purposes,

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- [REDACTED]
- Sponsor or participate in activities of a patriotic nature.
  - Provide insurance benefits for their members or dependents of their members (or both). (Note: The provision of insurance benefits for members and dependents is not considered to be prohibited inurement for IRC 501(c)(19) purposes.) or
  - Provide social and recreational activities for their members.

An analysis of the information you have submitted shows that you have had little activity over the past twelve months. You have had only three classes to date, and these classes had fewer than 10 students. You state that you will aid your veteran members by offering them credit cards and loans, and yet you have offered neither any credit cards to your members, nor any loans. Your lender and credit card offerer, [REDACTED] has ceased doing business with you. Although you have hired an attorney to try to resolve matters with [REDACTED], you have not informed us when, if ever, this matter will be resolved in your favor. Your Board has only met twice in over a year. Two of your six Board members resigned, and were never replaced. Your bylaws require five Board members, and there are currently only four members on the Board.

A majority of your proposed activities will be for fundraisers and the provision of credit cards/loans. The primary purpose of your activity is to raise money or make profits, which you will use to pay your President and your employees as wages/compensation. You show wages in excess of [REDACTED] dollars/year to be paid to your President and other employees.

In conclusion, you have conducted little activity to date. Your planned activities are not among those listed as permissible for an organization described in section 501(c)(19) in section 1.501(c)(19)-(1)(c) of the regulations. Your planned activities resemble the operation of a business and serve the private interests of your President.

Based on the above, we conclude that you do not qualify for exemption as an organization described in section 501(c)(19) of the Code and you must file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views to this office, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and a copy will be forwarded to the Ohio EP/EO key district office. Thereafter, any questions about your federal income tax status should be directed to that office, either by calling 877-829-5500 (a toll free number) or sending correspondence to: Internal Revenue Service, EP/EO Customer Service, P.O. Box 2508, Cincinnati, OH 45201.

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

Internal Revenue Service  
T:EO:RA:T:4; Room 3E5  
1111 Constitution Ave, N.W.  
Washington, D.C. 20224  
fax (202) 283-8937

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

(signed) Gerald V. Sack

Gerald V. Sack  
Manager, Exempt Organizations  
Technical Group 4

T:EO:RA:T:4